



BANCO CENTRAL DO BRASIL

Minutes of the 175th Meeting of the Monetary Policy Committee (Copom)

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Date: May 28th, 2013, from 4:12PM to 7:45PM, and May 29th, from 4:40PM to 8:25PM

Place: BCB Headquarters meeting rooms – 8th floor on May 28th and 20th floor on May 29th – Brasília – DF

In attendance:

Members of the Committee

Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on May 28th)

Bruno Walter Coelho Saraiva - International Affairs Department
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
Eduardo José Araújo Lima - Research Department (also present on May 29th)
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on May 28th)

Gustavo Paul Kurrle – Press Officer
Katherine Hennings – Economic Department Consultant
Otávio Ribeiro Damaso – Chief of Governor 's Staff

The members of the Copom analyzed the recent performance of and the prospects for the Brazilian economy and for the international economy, under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) reached 0.55% in April, 0.09 percentage points (p.p.) below the registered in April 2012. As a consequence, inflation in twelve months reached 6.49% in April (compared to 5.10% in April 2012). Market prices changed 8.09% in twelve months (5.63% until April 2012), and regulated prices, 1.55% (3.73% until April 2012). Among market prices, the prices of tradable goods increased 6.57%, and the prices of non-tradable goods, 9.44%. The prices of food



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and beverages group, still impacted by weather-related factors, increased by 0.96% in April and reached 14.00% in twelve months (6.23% until April 2012). In turn, the prices of services rose 8.13% in twelve months (8.00% until April 2012). In short, services inflation remains at high levels, and there are pressures in the food and beverages segment.

2. The average of the underlying inflation measures, calculated by the BCB, changed from 0.41% in March to 0.50% in April, and on a twelve-month trailing basis, it moved from 6.14% in March to 6.03% in April. Specifically, the smoothed trimmed means IPCA core inflation increased from 0.47% in March to 0.53% in April. The double weight core inflation, from 0.46% to 0.53%, the core inflation by exclusion of regulated prices and household food, from 0.31% to 0.45% and the core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.35% to 0.52%. On the other hand, the non-smoothed trimmed means, declined from 0.48% to 0.45%. The diffusion index, which had reached 75.1% in January, declined to 65.8% in April.
3. Inflation measured by the General Price Index (IGP-DI) decreased 0.06% in April, after increasing 0.31% in March, and accumulates change of 6.83% in the twelve months through April (3.86% in the twelve months through April 2012). The main component of this indicator, the Wholesale Price Index (IPA), changed 7.02%, (against 2.82% until April 2012). According to the breakdown by stage of production, there were increases in the prices of raw materials (5.74%), intermediate goods (6.86%) and final goods (8.15%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, stood at 6.17% in twelve months through April (5.05% in the twelve months through April 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.16% in the period (7.77% in the twelve months through April 2012), partially driven by the increase in labor cost. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.35% in April, expanding by 5.48% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.
4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br increased 0.7% in March, after decreasing by 0.4% in February. Year-over-year, the economy grew 0.4% in February and 1.2% in March, with twelve-month trailing growth remaining stable at 0.9%. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated 0.4% in May, confirming the accommodation signaled in April, considering seasonally adjusted data. On its turn, the Services Sector Confidence Index (ICS) fell in May, similar to what had occurred in April. The industrial businessmen confidence, measured by the Industry Confidence Index (ICI), increased in May, due to the improvement in the perception of the current situation. Regarding agriculture, the Agricultural Production Systematic Assessment, carried out by the IBGE, indicates that grains production should grow by 14.2% in 2013, relative to the 2012 harvest.
5. The Brazilian economy grew 0.6% in the first quarter of 2013, as in the previous quarter, according to seasonally adjusted quarterly data by the IBGE. Year-over-year, the growth in the first quarter was 1.9%, compared to 1.4% in the fourth quarter of 2012. As a consequence, the growth rate of the Brazilian economy in the last four quarters accumulates 1.2%. On the demand side, the Gross Fixed Capital Formation (GFCF) grew 4.6% at the margin and 3.0% over the same quarter of 2012. Household consumption - largest component of aggregate demand - increased by 0.1% at the margin and 2.1% compared to the first quarter of 2012 - thirty-eighth consecutive increase according to this comparison basis. In its turn, the government consumption remained unchanged in comparison to the previous quarter, having grown 1.6% year-over-year. Regarding the transactions with the rest of the world, the exports fell 6.4% and imports increased by 6.3%, at the margin, and changed -5.7% and 7.4%, respectively, year-over-year.
6. Manufacturing activity increased 0.7% in March, after a 2.4% decline in February, according to the general industrial production series seasonally adjusted by the IBGE. Industrial production increased month-on-month in 13 out of the 27 branches of activity surveyed. The production volume in March was 3.3% lower year-over-



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year. In turn, the change in twelve months fell from -1.9% in February to -2.0% in March. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry increased 2.7% in the first quarter, compared to the same quarter of the previous year, and the number of worked hours decreased 1.5%.

7. Among the industry use categories, according to data seasonally adjusted by the IBGE, and considering the month-on-month growth in March, the production of capital goods grew 0.7%, of intermediate goods, 0.8%, and of durable consumer goods, 4.7%. On its turn, the production of semi-durable and nondurable consumer goods changed -0.5%. Year-over-year, the production of capital goods increased 4.3%, of intermediate goods retreated 1.7%, of durable consumer goods changed -4.0%, and the one related to semi-durable and non-durable consumer goods, -8.2%. Growth accumulated in the last twelve months through March showed retreat in all use categories: capital goods (-6.7%); intermediate goods (-1.4%); semi-durable and non-durable consumer goods (-1.2%), and durable consumer goods (-0.3%).
8. The unemployment rate in the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated at 5.8% in April (6.0% in April 2012). According to the BCB seasonally adjusted series, the unemployment rate in April ranged to 5.4%, close to the minimum (5.3%) of the series started in March 2002. The reduction in the Working Age Population (WAP) growth rate during the last years has contributed to the process of reduction in the unemployment rates. On its turn, the occupation level reached 53.6% of the WAP in April, indicating stability. Still according to the PME, the average real income increased 1.6% in April, year-over-year, and real payroll increased 2.5%, also compared to April 2012. Data released by the Ministry of Labor and Employment (MTE) show that 196.9 thousand formal jobs were created in April (217.0 thousand in April 2012), with positive balance in all eight sectors of the economic activity. In short, the set of available data indicates narrow idleness margin in the labor market, despite some signs of moderation at the margin.
9. According to the retail monthly survey (PMC), released by the IBGE, retail sales volume increased 4.5% in March, year-over-year. Broad retail sales volume increased 3.0%, according to the same comparison basis. According to the seasonally adjusted series, in March retail sales changed by -0.1%, and broad retail sales, by 0.2%, month-on-month. Therefore, the broad retail sales growth rate in the last twelve months stood at 7.2%, with expansion in all ten sectors surveyed. On its turn, the Trade Confidence Index (ICOM), measured by the FGV, showed a slight decrease in the quarter ended in May and has signaled cooling of the activity, compared to 2012. For the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by moderate credit expansion.
10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, stood at 83.8% in April (83.5% in April 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci in April stood at 84.2%. Capacity utilization in the capital goods sector, according to the seasonally adjusted series, decreased to 83.2%. In the sector of consumer goods, intermediate goods and construction inputs, the levels stood at 83.4%, 85.5% and 89.6%, respectively.
11. The twelve-month trailing trade balance result retreated to US\$10 billion in April. This result stemmed from US\$239.4 billion in exports and US\$229.4 billion in imports, associated to changes of -7.7% and -0.8%, respectively, compared to the previous twelve months. On its turn, the current account deficit accumulated in twelve months reached US\$70 billion in April, equivalent to 3.0% of GDP, while the foreign direct investment totaled US\$64.1 billion in the twelve months through April, equivalent to 2.8% of the GDP.
12. In the global economy, low growth prospects for a long period in important advanced economies remain, notably in the Euro Zone, and indicators of volatility and risk aversion have shown some stability. High unemployment rates in Europe, coupled with the efforts of fiscal consolidation and political uncertainties, are translated into declines in investment and low growth projections. Nevertheless, the composite leading indicator, released by the Organization for Economic Cooperation and Development (OECD), referring to March, signaled improved outlook for growth in some advanced economies, particularly in the United States (US) and in Japan. On its turn, the indicators of the Purchasing Managers Index (PMI) for April, indicate continued global growth, despite at a more moderate pace, both in the manufacturing and in the services



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sectors. Regarding monetary policy, the advanced economies have persisted with strongly accommodative stances, coupled with, in some cases, unconventional monetary policy actions. In emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate levels in the US and in the Euro Zone, and negative in Japan.

13. The price of Brent oil barrel has oscillated since the previous Copom meeting, reaching levels close to US\$105. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which also reflects the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. The international prices of metallic and agricultural commodities have remained stable since the last Copom meeting. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a change of 1.1% in the twelve months through April 2013.

Assessment of Inflation Trends

14. The identified shocks, and their impacts, were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:
 - a) the projected adjustment for gasoline price in 2013 was maintained at 5%, unchanged relative to the April Copom meeting;
 - b) the projected adjustment for household electricity price points to a decrease of nearly 15%, unchanged relative to the April Copom meeting. This estimate considers the direct impacts of the sector charges reductions recently announced, as well as readjustments and ordinary tariff revisions planned for this year;
 - c) for 2013, bottled gas prices are projected to remain stable and the fixed telephone tariff is projected to decrease 2.0%;
 - d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2013, reduced to 2.5%, down from 2.7% considered in the April Copom meeting; and
 - e) the projected adjustment for the set of regulated prices accumulated in 2014 was maintained at 4.5%, the same value considered at the April Copom meeting. This projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).
15. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 52 bps and 16 bps spreads for the fourth quarters of 2013 and 2014, respectively.
16. Regarding fiscal policy, projections assume the achievement in 2013 of the public sector primary surplus of R\$155.9 billion, according to the parameters set out in the Budget Guidelines Law (LDO) – 2013. For 2014, as a working hypothesis, a primary surplus of R\$167.4 billion is accepted, according to the parameters set out in the Budget Guidelines Law Project (PLDO) – 2014.
17. The set of projections incorporates the estimated effects of the reduction in the neutral interest rate identified over the last years.
18. Since the last Copom meeting, the median of the expectations compiled by the Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA increased from 5.68% to 5.81%. For 2014, the median of the inflation expectations increased from 5.70% to 5.80%.
19. The baseline scenario assumes the maintenance of the exchange rate at R\$2.05/US\$1.00 and the Selic rate at 7.50% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation increased relative to the figure considered at the April Copom meeting and stands above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin with market analysts, in the period immediately prior to the Copom meeting, 2013 IPCA inflation forecast increased and stands above the midpoint inflation target. For 2014, the inflation forecast little changed relative to the figure considered at the



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April Copom meeting and stands above the midpoint inflation target, both in the baseline and in the market scenarios.

Monetary Policy Decision

20. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Committee also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly prices setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant, to guarantee that pressures detected in shorter horizons do not spread to longer horizons.
21. The Copom understands that there were significant structural changes in the Brazilian economy, which determined retreat in interest rates in general and, in particular, in the neutral rate. Among the factors that support this view, it bears highlighting the reduction in risk premia, a direct consequence of the accomplishment of the inflation target for the ninth consecutive year, of the macroeconomic stability and of institutional improvements. Moreover, the process of interest rates reduction was favored by changes in the structure of financial and capital markets, by the credit market deepening, as well as by the generation of primary surpluses consistent with the maintenance of the decreasing trend for the public debt-to-GDP ratio. For the Committee, all these transformations are characterized by high degree of persistence - although, due to the economic cycles themselves, specific and temporary reversions may occur - and contribute for the Brazilian economy's current solid indicators of solvency and liquidity.
22. The Copom also evaluates that the increase in the supply of external savings and the reduction of its funding cost, which, according to the Committee's assessment, are largely permanent developments, have contributed to the reduction of the domestic interest rates, including the neutral rate.
23. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the main economic blocks. In this context, despite identifying low probability of occurrence of extreme events in the international financial markets, the Committee considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity remained, with trend of intensification over the relevant horizon for monetary policy. In this context, there are localized improvements in advanced economies, although the space to use monetary policy remains limited and the fiscal restraint scenario prevails in this and in the upcoming years. In important emerging economies, however, the activity pace has intensified, supported by the resilience of domestic demand. The Committee also highlights evidences of accommodation of commodities prices in international markets, as well as greater volatility and dollar appreciation trend in the US.
24. The Copom evaluates that, despite the limitations in the supply side, the main scenario encompasses a more intense domestic activity pace in this and in the upcoming year, that means, a growth trajectory, in the relevant horizon for the monetary policy, more in line with potential growth. In this context, recent information indicate investments' recovery and continuity in household consumption growth, favored by public transfers and by the vigor in the labor market – which reflects in historically low unemployment rates and in wages growth. In general, domestic absorption has expanded at rates higher than GDP growth rates and tends to be benefited by the effects of fiscal policy actions, by the expansion of credit supply, both for individuals and corporates, and by the program of public services concession, among other factors.



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25. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables, despite recent initiatives point to an expansionist position of the public sector balance. The Committee notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, strengthens the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.
26. The Copom highlights that its main scenario also considers moderate credit expansion. Still regarding the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.
27. In the factors market, the Copom highlights the narrow idleness margin in the labor market and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation. Despite the moderation signs, the Committee evaluates that the wages dynamics remains originating inflationary pressures of costs.
28. The Copom evaluates that the high inflation level and the dispersion of prices increases, as recently observed, contribute for inflation to show resistance. In this context, the formal and informal indexation mechanisms and the deterioration in the economic agents' perception regarding the inflation dynamics are included. Considering the damage that the persistence of this process would cause to the decision-making process on consumption and investment, it is necessary that, with the due promptness, it is reverted. Therefore, the Committee understands that the intensification of the adjustment pace of the monetary conditions underway is appropriate.
29. In this context, and continuing the basic interest rate adjustment, the Copom unanimously decided to increase the Selic rate to 8.00% p.a., without bias. The Committee evaluates that this decision will contribute to set inflation into decline and ensure that this trend persists in the upcoming year.
30. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.
31. The Copom evaluates that the domestic demand tends to show robustness, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the remaining effects of policy actions implemented in 2012. For the Committee, these effects, the programs of public services concession, the inventories at adjusted levels and the gradual recovery of businessmen's confidence create prospects for investments' intensification and industrial production recovery. The Committee considers that recent initiatives point to an expansionist position of the public sector balance. On the other hand, the Committee notes that the fragile international scenario still represents an aggregate demand restraining factor. These elements and the developments in the quasi fiscal framework and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.
32. The Copom emphasizes that the international evidence, which it is ratified by the Brazilian experience, shows that high inflation rates generate distortions that lead to higher risks and depress investments. These distortions are manifested, for example, in the shortening of the planning horizons of households, businesses and governments, as well as in the deterioration of the businessmen confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over household's confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.
33. The Copom notes that, in the short run, 12-month inflation shows elevation trend and that the balance of risks for the prospective scenario is unfavorable.



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34. The Copom highlights that, in moments such as the current one, the monetary policy should remain specially vigilant, in order to minimize risks that high inflation rates, such as the ones observed in the last twelve months, persist in the relevant horizon for monetary policy.
35. At the end of the meeting, it was announced that the Committee will reconvene on July 9th, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665, of June 27th, 2012.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

36. The IPCA-15 changed 0.46% in May, compared to 0.51% in April, according to the IBGE. The monthly deceleration reflected the decrease of 0.09 p.p., to 0.47%, in market prices variation and the acceleration, from 0.33% to 0.43%, in regulated prices. Regarding market prices, it bears highlighting the deceleration in non-tradable goods prices, from 0.98% to 0.60%, with services varying 0.52% compared to 0.51% in April, and the acceleration, from 0.09% to 0.32%, in the prices of tradable goods. The IPCA monthly variation was mainly favored by the deceleration, from 1.00% to 0.47%, in the prices of food and beverages, with contribution of 0.12 p.p. to the index, compared to 0.25 p.p. in April. The diffusion index reached 61.37% in May, compared to 68.22% in April.
37. Considering periods of twelve months, the IPCA increased 6.46% in May, compared to 6.51% in April. Market prices decelerated from 8.11% to 8.05%, reflecting the decrease, from 6.75% to 6.25%, in the prices of tradable goods and the increase, from 9.34% to 9.67%, in non-tradable goods ones. Regulated prices variation reached 1.57%, compared to 1.56% in the twelve-month period ended in April. Services prices increased 8.41% compared to 8.13% and 8.33%, in the twelve-month periods ended in April and March, respectively.
38. The IGP-M remained stable in May, after increasing 0.15% in April, according to the FGV, a result of the deceleration in the IPA and in the IPC, and the acceleration in the INCC. In twelve months, the IGP-M increased 6.22% in May, compared to 7.30% in April.
39. The IPA-M changed -0.30% in May, compared to -0.12% in April, accumulating 6.16% in twelve months. The prices of industrial products increased 0.34% in the month, compared to 0.54% in April, accumulating increases of 2.43% in the year and 5.83% in twelve months. The prices of agricultural products decreased 1.98% in May and 1.82% in the previous month, accumulating changes of -6.27% in the year and 7.20% in twelve months. The monthly performance of industrial products prices evidenced, mainly, the increases in the prices of metallic minerals (4.73%), and dairy products (3.49%), which contributed 0.27 p.p. and 0.05 p.p., respectively. Regarding agricultural products prices, it bears noticing the decrease in the prices of poultry (10.54%); corn (7.96%); and tomato (18.95%), contributing -0.20 p.p., -0.17 p.p. and -0.13 p.p., respectively.
40. The IPC-M increased 0.33% in May, compared to 0.60% in April, accumulating increases of 2.95% in the year, compared to 2.79% in the same period of the previous year, and 5.96% in twelve months. The monthly deceleration of the IPC-M was favored by the cooling in the prices of some groups, such as food, to 0.36% from 1.26% in April; transports, to -0.12% from 0.26%; and housing, to 0.22% from 0.52%, with contributions of 0.09 p.p., -0.02 p.p. and 0.05 p.p., respectively. The INCC-M changed 1.24% in May, compared to 0.84% in April, with acceleration in the prices of materials, equipment and services, from 0.50% to 0.56%, and in the costs of labor force, from 1.15% to 1.88%. The INCC-M increased 4.64% through May and 9.05% in twelve months.
41. The IPP/IT increased 0.35% in April, compared to 0.04% in March, accumulating -0.06% in the year, compared to 1.64% in the same period of 2012. The monthly result of the IPP/IT reflected, partially, the increases in items as rubber and plastic, 1.43%, and machines and equipment, 1.20%, contributing 0.05 p.p. to the index. In twelve months, the IPP/IT changed 5.48% in May, compared to 6.65% in April, with highlights



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to the contributions of food, 1.11 p.p.; other chemical products, 0.98 p.p.; and coke, oil byproducts and biofuels, 0.92 p.p.

42. The Commodities Index Brazil (IC-Br) decreased 1.93% in April, after falling 1.82% in March, with devaluations of 1.50%, 1.61% and 3.75% in the segments of energy, agriculture and metals commodities, respectively. The IC-Br accumulated a decrease of 7.89% through April, a result of the devaluation of 5.55%, 7.75% and 10.59%, respectively, in the mentioned segments.

Economic Activity

43. The GDP increased 0.6% in the first quarter of 2013, quarter-over-quarter, when it had reached the same rate, according to data seasonally adjusted by the IBGE. According to the supply side, the quarterly result reflected changes of 9.7% in agriculture, -0.3% in industry and 0.5% in services. The domestic component of demand showed increases of 0.1% in household consumption and 4.6% in the GFCF, while in external sector, there were changes of -6.4% in exports and 6.3% in imports. The GDP grew 1.9% compared to the first quarter of 2012, as a result of the increases of 17% in agriculture and 1.9% in the services sector and the retreat of 1.4% in industry. The demand analysis show, in the same period, contributions of 3.67 p.p. in the domestic component, due to the changes of 3%, 2.1% and 1.6% in GFCF and in household and government consumptions, respectively; and of -1.75 p.p. of the external sector, due to the changes of -5.7% in exports and 7.4% in imports.
44. The IBC-Br increased 0.72% in March, month-on-month, considering seasonally adjusted data. The index changed 1.05% in the first quarter of 2013, compared to the fourth quarter of 2012, when it had increased 0.63%, according to the same comparison basis. Considering observed data, the IBC-Br changed 1.16% year-over-year, compared to 0.44% in February, according to the same comparison basis, and accumulated an increase of 0.91% in the twelve-month period through March.
45. Broad retail sales, which include vehicle and construction inputs, increased 0.1% in March, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC). Sales increased, in average, 0.2% in the first quarter of the year, compared to the fourth quarter of 2012. By segment, six out of the ten surveyed segments increased, with highlights for fabric, clothing and shoes, 3.9%; fuels and lubricants, 2.4%; and vehicles, motorcycles, parts and pieces, 1.9%. On the other hand, there were decreases in the sales of office, computer and communication equipment and materials, 5.2%; books, newspapers, magazines and stationery, 2.9%; and hypermarkets, supermarkets and food products, 2.1%. Retail sales decreased 0.1% in March, month-on-month, accumulating an average retraction of 0.2% in the first quarter of the year, compared to the fourth quarter of 2012. Retail sales increased 6.8% in the twelve-month period through March.
46. Considering observed data, broad retail sales increased 3% in March, year-on-year, with emphasis in the performance of the segments other articles of domestic and personal use, 14.9%; and fabric, clothing and shoes, 5.9%. Broad retail sales increased 7.1% in the twelve-month period ended in March, with highlights for the increase of other articles of domestic and personal use, 9.9%; pharmaceutical, medical, orthopedic, perfumery and cosmetic articles, 9.4%; furniture and household appliances, 8.6%; and vehicles, motorcycles, parts and pieces 8%.
47. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 333.8 thousand units in April, increasing 29.4% compared to the same period of 2012, according to the Automotive Vehicles Distribution National Federation (Fenabrave), seasonally adjusted by the BCB. These sales decreased 10% in the quarter ended in April, compared to the one ended in January, when they increased 0.1%, according to the same comparison basis. Considering twelve-month periods, automobile vehicles increased 7% in April, due to increases of 9.9% in the sales of automobiles and of 3.3% in the ones related to light commercial vehicles. In contrast, sales of trucks and buses decreased 17.4% and 12.9%, respectively, according to this comparison basis.



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48. Capital goods imports quantum, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 3% in April, month-on-month. The observed data analysis showed an expansion of 8.4% compared to April 2012, of 7.5% in the year, and of 1.4% in the twelve-month period ended in April.
49. Capital goods production increased 0.7% in March, accumulating an expansion of 9.1% in the first quarter of 2013, compared to the fourth quarter of 2012, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The monthly result reflected, specially, the increases in construction equipment industries, 8.3%; agricultural pieces, 5.3%; and non-serial industrial equipment, 1.3%. In contrast, it bears highlighting the retractions in the segments of goods for the electric sector, 2.6%; for industrial series use, 0.9%; and for mixed use, 0.4%.
50. Construction inputs production increased 1.2% in March, month-on-month, accumulating an expansion of 0.6% in the quarter, compared to the quarter ended in December, considering seasonally adjusted data. Considering a twelve-month period, the segment production increased 0.2% in March.
51. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R\$168.7 billion in the twelve months through March, 21.8% above the one registered in the same period of 2012. It bears emphasizing the growth of the resources destined to commerce and services (59%), followed by the agriculture and livestock sector (41%) and industry (29%). In the period, the industry absorbed 33% of the total resources, followed by infrastructure (31%), commerce and services (28%) and agriculture and livestock sector (8%).
52. Industrial production increased 0.7% in March, month-on-month, according to IBGE seasonally adjusted data, after a 2.4% decrease in February, influenced by the expansions of 0.8% and 0.4% in the manufacturing and mining industries, respectively. According to the use categories, there were increases in the production of durable consumer goods (4.7%), followed by intermediate goods (0.8%), capital goods (0.7%) and semi and non-durable consumer goods (-0.5%). Thirteen out of the 27 manufacturing industry activities surveyed increased in the month, with highlights for the segments of tobacco (33.4%), office machines and computer equipment (11.9 %) and furniture (11%), in contrast to the decreases in the industries of miscellaneous (-7.3%), other transportation equipment (-5%) and timber (-4.8%). The industrial production increased 0.8% in the first quarter of 2013, quarter-over-quarter, when it had decreased by 0.1%, reflecting changes of 1.5% in the manufacturing industry and -7.3% in the mining industry. It bears highlighting the increase in the industries of electronic material and communication equipment (9.4%) furniture (9.1%), footwear and leather (8.9%) and office machines and computer equipment (8.4 %); on the other hand, tobacco decreased 36.3%. Considering observed data, industrial production decreased 3.3% in March, year-over-year, recording decreases of 7.2% in consumer goods and 1.7% in intermediate goods, and expansion of 4.3% in capital goods production. The 0.5% retraction in the first quarter of the year, year-over-year, reflected, in particular, the performance of semi and non-durable consumer goods (-3.9%) and intermediate goods (-0.8%), while in the twelve months through March, the 2% decrease reflected declines in all use categories, with highlights for capital goods (-6.7%).
53. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.6% in May, 0.4 p.p. higher than April, according to FGV seasonally adjusted data. Among the use categories, intermediate goods increased 1 p.p. and both durable consumer goods and non-durable consumer goods increased 0.4 p.p., while decreases were registered for capital goods (-0.7 p.p.) and construction inputs (-0.5 p.p.). Considering the observed series, the Nuci increased 0.6 p.p., year-over-year, reaching 84.3%, as a result of the changes in durable consumer goods (2 p.p.), intermediate goods (1 p.p.) and non-durable consumer goods (-0.8 p.p.).
54. Vehicles output reached 340.9 thousand units in April, a new monthly record high, representing an increase of 11.7% month-on-month, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. In the quarter ended in April, the production decreased by 0.4%, quarter-over-quarter. Considering observed data, vehicles output increased 30.7% year-over-year, 17% in the year and 6.7% in twelve months through April.
55. Still according to data released by Anfavea, national vehicle licensing decreased 0.1% in April, month-on-month, and 8.7% in the quarter ended in April, considering data seasonally adjusted by the BCB. Regarding



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observed data, there were increases of 33.5% year-over-year, 13% in the year and 14.2% in twelve months. Automobile exports totaled 55.1 thousand units in April, representing changes of 13.1% year-over-year, 3.8% in the year and -17.3% in twelve months through April. According to the series seasonally adjusted by the BCB, exports increased 10.3% in the month, month-on-month, and 13.7% in the quarter ended in April, as compared to the quarter ended in January.

56. The LSPA survey carried out by the IBGE regarding April projected 185 million tons for the 2013 national harvest of grains, representing increases of 14.2% year-over-year and 2% over the March crop estimate. Regarding the 2012 harvest of grains, the new prognosis evidences, in particular, the expected increase of 23.3% for the soybean production, followed by the impacts for the other main crops' estimates of 24.6%, 12.4%, 9.1% and 5.1%, which are respectively estimated for the harvests of wheat, beans, corn and rice. Moreover, a 10.4% increase over the previous year is estimated for the harvest of sugar cane, according to the same comparison basis.

Surveys and Expectations

57. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), reached 113.4 points in May. The decrease of 0.4% month-on-month reflected changes of 0.9% in the Current Situation Index (ISA) and -1.2% in the Expectations Index (IE). According to observed data, the ICC decreased 10.3%, year-over-year, due to changes of -15.3% in the ISA and of -6.9% in the IE.
58. The ICS, carried out by the FGV considering seasonally adjusted data, reached 119.4 points in May. The monthly retreat of 0.7% reflected the changes of -1.1% in the Current Situation Index (ISA) and -0.4% in the Expectations Index (IE). The ICS decreased 4.5%, year-over-year, as a result of the decreases of 6.3% in the ISA and of 3.1% in the IE.
59. The Commerce Confidence Index (ICOM), measured by the Commerce Survey, from the FGV, reached 122.7 points in May, decreasing 2.5% year-over-year. The result reflected the decreases of 2.6% in the Expectations Index (IE-COM) and of 2.5% in the Current Situation Index (ISA-COM). In the quarter ended in May, the ICOM decreased 3.6%, year-over-year, due to the retractions of 4.3% in the IE-COM and of 2.6% in the ISA-COM.
60. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), reached 105.0 points in May, an increase of 0.8% month-on-month, driven by the changes of 2.1% in the Current Situation Index (ISA) and -0.7% in the Expectations Index (IE). The ICI increased 1.4% year-over-year, as a result of the increases of 2.1% in the ISA and 0.9% in the IE.
61. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 120.2 points in April, decreasing 2.6% year-over-year. The result reflected retreats of 5.3% in the Current Situation Index (ISA-ICST) and 0.4% in the Expectations Index (IE-ICST). In the quarter ended in April, the ICST decreased 6.6%, year-over-year, influenced by the changes of -9.1% in the ISA-ICST and -4.5% in the IE-ICST.

Labor Market

62. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 196.9 thousand formal jobs were created in April, of which 75.2 thousand jobs in the services sector, 40.6 thousand jobs in the manufacturing industry and 32.9 thousand jobs in the civil construction sector. In the year, 461.7 thousand jobs were created and, in the twelve months through April, 731.7 thousand, compared to 598.2 thousand and 1.4 million, respectively, in the same periods of 2012. Month-on-month, formal job creation expanded by 0.49% in April, considering data seasonally adjusted by the BCB.
63. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.8% in April, compared to 5.7% in March and 6% in April 2012. The



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monthly result reflected the decrease of 0.1% in the employed population and the increase of 0.1% in the Economically Active Population (PEA). The employed population increased 0.9%, year-over-year, compared to 1.2% in March, according to the same comparison basis. Considering data seasonally adjusted by the BCB, the unemployment rate increased 0.1 p.p., reaching 5.4% in April. According to the same survey, the average real income usually earned by workers decreased 0.2% month-on-month and increased 1.6% year-over-year. Real payroll recorded changes of -0.2% and 2.5%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

64. The total credit in the financial system, including the non-earmarked and earmarked credit operations, reached R\$2,453 billion in April, with expansions of 1.1% in the month and 16.4% in twelve months. The credit-to-GDP ratio reached 54.1% compared to 53.9% in March and 49.7% in April 2012. The balance of non-earmarked credit operations, equivalent to 57.8% of the total credit outstanding in the financial system, rose 0.5% in the month and 11.1% in twelve months, reflecting respective changes of 1% and 9.2% for credit operations with individuals and stability and expansion of 13.1%, in the same order, for credit operations with corporate. The earmarked credit operations increased, respectively, 1.9% and 24.6%, according to the same comparison bases, with highlights for the increases of 2.7% and 34.5%, respectively, in mortgages, for the segment of individuals, and 1.4% and 16.2%, respectively, in the BNDES's financing for the operations destined to corporate.
65. The overall average interest rate of loans in the financial system remained at 18.5% p.a. in April, representing a fall of 4.1 p.p. year-over-year. The average rates for the segments of individuals and corporate reached, respectively, 24.3% and 14%, corresponding to reduction of 0.1 p.p. and stability, respectively, month-on-month, and retreats of 5 p.p. and 3.4 p.p., year-over-year.
66. The overall average tenure on credit operations reached 90 months in April, representing an increase of 4 months, month-on-month, and 15.9 months, year-over-year. The tenure related to individuals increased 1.9 months and 19.1 months, respectively, and that related to the corporate segment increased 5.6 months, month-on-month, and 13.3 months, year-over-year, reaching 128.9 months for individuals and 60.2 months for corporate.
67. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, stood at 3.6% in April, remaining stable compared to March and February and falling 0.3 p.p. compared to April 2012. The indicator related to operations with individuals reached 5.3%, decreasing 0.1 p.p. in the month and 0.6 p.p. in twelve months, while the one referring to corporate stood at 2.3% in April, increasing 0.1 p.p. in the month and remaining stable in twelve months.

External Environment

68. The global economic recovery remains at a moderate pace. Quarterly annualized GDP changes reached, in the first quarter, 2.5% in the US, -0.9% in the Euro Zone, 3.5% in Japan and 6.6% in China, compared to 0.4%, -2.3%, 1% and 8.2%, respectively, in the previous quarter. In the US, the activity growth was lower than expected and occurred under the impulse of inventories' formation and private consumption. It bears emphasizing the continuity of positive results in labor and real estate markets, occurring further decline in the unemployment rate, to 7.5% in April, and increase in the licensing of new buildings, which exceeded, in April, the yearly level of one million units for the first time since the start of the crisis. In the Euro Zone, the economic activity is at its longest period of contraction. Among the major economies, the annualized GDP growth expanded only in Germany by 0.3%, retreating 0.7% in France, 2.1% in Italy, and 2% in Spain. In the region, the unemployment rate reached a new record high in March, 12.1%, and the Composite PMI for May reached 47.7 points, indicating contraction of activity for the sixteenth consecutive month. In Japan, in the midst of fiscal and monetary easing policies, the economy shows signs of recovery. The devaluation of the yen has generated positive impacts on exports and the industrial sector, which grew by 1.8% in the quarter ended in March. The Composite PMI, although having retreated in April, remains at a level in line with expansion activity since the start of the year. In China, the slowdown of activity continued for the second consecutive quarter. However, monthly April figures for fixed asset investment, retail sales and industrial production were



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higher than the ones recorded in the quarter ended in March. It is worth noting, additionally, the decline of the manufacturing PMI to 49.6 in May from 50.4 in April, signaling the first contraction of Chinese industry in seven months.

69. Financial markets remained operating in an environment of low volatility in most of the period, and the index CBOE VIX oscillated around thirteen points. The ample liquidity in the financial markets, the upgrade of the Greece sovereign bonds and the perception that, if necessary, the authorities will continue to act in a coordinated way to enlarge the monetary policies easing stances have supported the recovery of confidence, favoring the valuation of assets and the retreat of the sovereign risk in the most vulnerable economies in the Euro Zone. In this scenario, the major stock exchanges appreciated especially the DAX, from Germany, and the Nikkei, from Japan. In the period between meetings, the dollar appreciated against the main currencies, movement favored by the expectation of anticipation of withdrawal of monetary stimuli by the Federal Reserve (Fed), and by the reduction of the basic interest rate in the Euro Zone.
70. In the international commodities market, the improvement in the grain supply scenario and the prospects for good crops in 2013/2014, coupled with the moderate recovery in global activity, have favored the maintenance of a downward trend in prices for great part of the commodities, in particular, corn, sugar, coffee and iron ore. On the other hand, the resurgence of geopolitical tensions in Syria favored upward adjustment in oil prices from the last ten days of April, after two months of reduction in the prices of Brent barrel.
71. According to the International Financial Statistics, from the IMF, the annual change in the overall CPI reached 2.9% in April, down from 3.7% in February, a result of inflationary downturns in advanced economies, from 1.6% to 0.9%, and in the emerging economies, from 6.8% to 6.0%. In the context of high idle capacity and persistent contraction of the economy, the ECB reduced its benchmark interest rate (main refinancing rate), at the beginning of May, by 25 b.p., to a record low of 0.5%, and the marginal loan rate (marginal lending facility) by 50 b.p. to 1.0%. The scenario of moderate growth and decline in commodity prices also favored the maintenance of official interest rates at historical minimum rates by the central banks of the US, Japan and the UK, while the monetary authorities of Australia, South Korea, Denmark, India, Turkey, Poland, Hungary and Israel expanded the expansionary stances of their policies, reducing again their respective basic rates.

Foreign Trade and International Reserves

72. The Brazilian trade balance showed a deficit of US\$1 billion in April, as a result of US\$20.6 billion in exports and US\$21.6 billion in imports. The accumulated deficit in the year totaled US\$6.2 billion, compared to a surplus of US\$3.3 billion in the same period of 2012, reflecting a decrease of 3.1% in exports and an increase of 10.1% in imports, according to the criterion of daily average. The total external trade expanded by 3.4% in the period, totaling US\$149.1 billion.
73. International reserves totaled US\$378.7 billion in April, with an increase of US\$1.7 billion in the month. In the month, there was no spot intervention in the domestic exchange market.

Money Market and Open Market Operations

74. After the April Copom meeting, the domestic yield curve showed greater volatility, recording initially a deep downward movement, resuming from mid-May, resume the upward trajectory, ending the period close to stability. Among the factors underpinning this movement, it bears highlighting, in the international scenario, the expectation of reduction of monetary stimuli by the Fed, the appreciation of the US dollar relative to other currencies, the elevation of the US treasuries rates and the continuity of uncertainties regarding the global economic recovery. Domestically, the slow economic recovery and the collection of higher prices led to fluctuations in the short end of the yield curve. Between April 15th and May 27th 2013, one-, three- and six-month interest rates increased by 0.19 p.p., 0.11 p.p. and 0.02 p.p., respectively. The rates for one and two-year maturities decreased by 0.03 p.p. and 0.06 p.p., respectively, while the three-year rate increased by 0.01 p.p. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, decreased from 2.77%, on April 15th, to 2.53% on May 27th, mainly due to the rise in inflation expectations.



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75. In managing the liquidity of banks' reserves market, the BCB carried out, weekly, from April 16th to May 27th, repurchase agreements with maturities of six months, borrowing funds in the amount of R\$44.0 billion. From April 22nd, the BCB conducted daily repurchase agreements with maturity of 3 months, taking funds of R\$73.7 billion. The overall daily average of the long-term operations outstanding increased from R\$419.7 billion between March 5th and April 15th, to R\$486.0 billion, between April 16th and May 27th. The BCB also carried out overnight repo agreements on 29 occasions as a borrower. It also conducted leveling operations at the end of the day, with tenure of two business days. The overall daily average of such overnight operations was R\$189.7 billion in the period. The overall daily average of the total outstanding of repurchase agreements of the BCB increased from R\$681.7 billion between March 5th and April 15th, to R\$687.1 billion between April 16th and May 27th. Considering the period between April 15th and May 27th, the outstanding of repurchase agreements decreased from R\$698.6 billion to R\$679.7 billion. The main factor driving the liquidity contraction in the period was the net revenues of the Government.